

MEMORANDUM – ISSUE REVIEW SESSION

TO: Mayor and Council
THROUGH: Andrew Ching, City Manager
FROM: Mark Day, Interim Municipal Budget Office Director
Ken Jones, Deputy City Manager, CFO
DATE: November 1, 2018
SUBJECT: Long-range Financial Forecast Update



PURPOSE:

To provide an update to the City's long-range financial forecast, which will be presented during the 11/1/18 Work Study Session.

RECOMMENDATION OR DIRECTION REQUESTED:

The City Council should provide comments and suggestions regarding the City's long-range financial strategies.

CITY COUNCIL STRATEGIC PRIORITY:

Maintaining a long-range financial forecast and eliciting City Council feedback on financial policies relate directly to City Council priority #5 – *Financial Stability and Vitality* and are critical strategies to achieving the following performance measures:

- 5.4 – Maintain the highest general obligation bond (credit) rating
- 5.5-- Maintain a General Fund unassigned fund balance at a minimum of 20% and maximum of 30% of General Fund revenue.

BACKGROUND INFORMATION:

The last long-range financial forecast was presented to the City Council in February 2018.

FISCAL IMPACT or IMPACT TO CURRENT RESOURCES:

No financial commitments will be made during this presentation to the City Council; only direction for budget development and long-term financial planning will be elicited.

ATTACHMENTS:

PowerPoint Presentation

Introduction

This is the initial update to the long-range financial forecast leading to the development of the FY 2019-20 budget. The Final update will be presented in February 2019, prior to approval of the budget. We will use the projections contained in this forecast to establish parameters for current budget development and to plan for future operating and capital needs. Although projections of future revenues and service costs can never be precise, the models utilized by our Budget Office are constantly improving and have proven to be good indicators of potential resources and costs.

General Economic Conditions and Projections

The City's overall financial condition continues to be strong and stable. Our five-year forecast for revenues remains positive, anticipating moderate growth, although slowing, growth in taxable sales. Commercial and residential development activity has provided a big boost to construction sales tax revenues in recent years and is projected to decline slightly in the latter years of the forecast. Moderate increases in other local taxes should provide for a stable local tax revenue stream for the remainder of the current fiscal year and into fiscal year 2019-20, with slowing growth projected in the subsequent years of the forecast. An economic downturn is inevitable at some point in our cyclical economy. We have not included any recessionary trends in the individual fund forecasts contained in this report. We project healthy fund balances in the General Fund throughout the forecast period, which would help overcome moderate recessionary trends.

Potential Budget Challenges

Current, long-term memoranda of understanding with our four employee groups have stabilized forecasted personnel cost increases, with fair and steady salary increases projected over the forecast period. However, contributions to the Public Safety Personnel Retirement System (PSPRS) continue to be one of the most volatile factors in projecting annual personnel costs. At the City Council's direction, we are working to get a better actuarial analysis of Tempe's obligation to PSPRS, which will enable us to improve the accuracy of future forecasts of this cost.

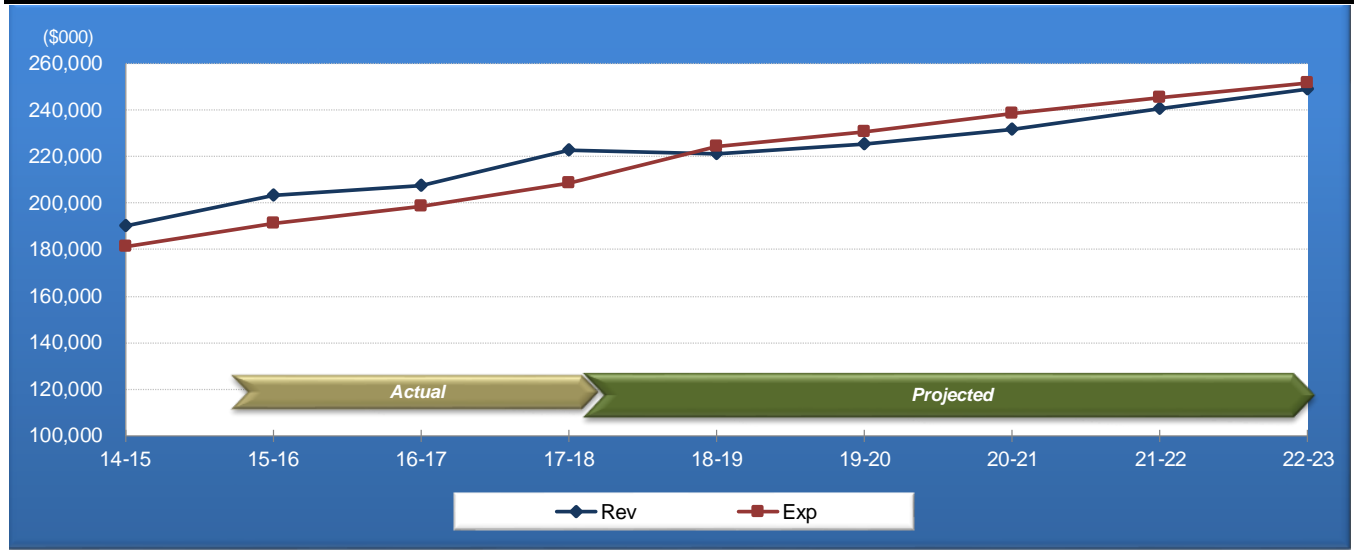
Recent Issues Impacting the Forecast

- 1) The level of development activity in the City has continued to outperform estimates. Revenue related to building permits, plan reviews and other development-related activities continues at a rate well above normal.
- 2) The City Council approved a strategy to fund large golf course capital projects with bond funds, repaid with secondary property taxes. This will help stabilize the Golf Fund and will require future bond authorization from voters.
- 3) The Emergency Medical Transportation Fund is the newest enterprise fund. Revenues have exceeded early expectations and the service is projected to expand through 2020-21.
- 4) A statutory change has eliminated the required "Maintenance of Effort" transfer from the General Fund to the Transportation Fund, which was approximately \$1.5 million per year. Although the required transfer has been eliminated, the CIP still includes street repair and maintenance projects depending on that funding.

Forecast Models for Individual Operating Funds

The following pages contain comments on significant changes to the forecasts of the City's operating funds. Throughout this document, dollar amounts are expressed in thousands of dollars, so add three zeros to the numbers in fund models.

General Fund

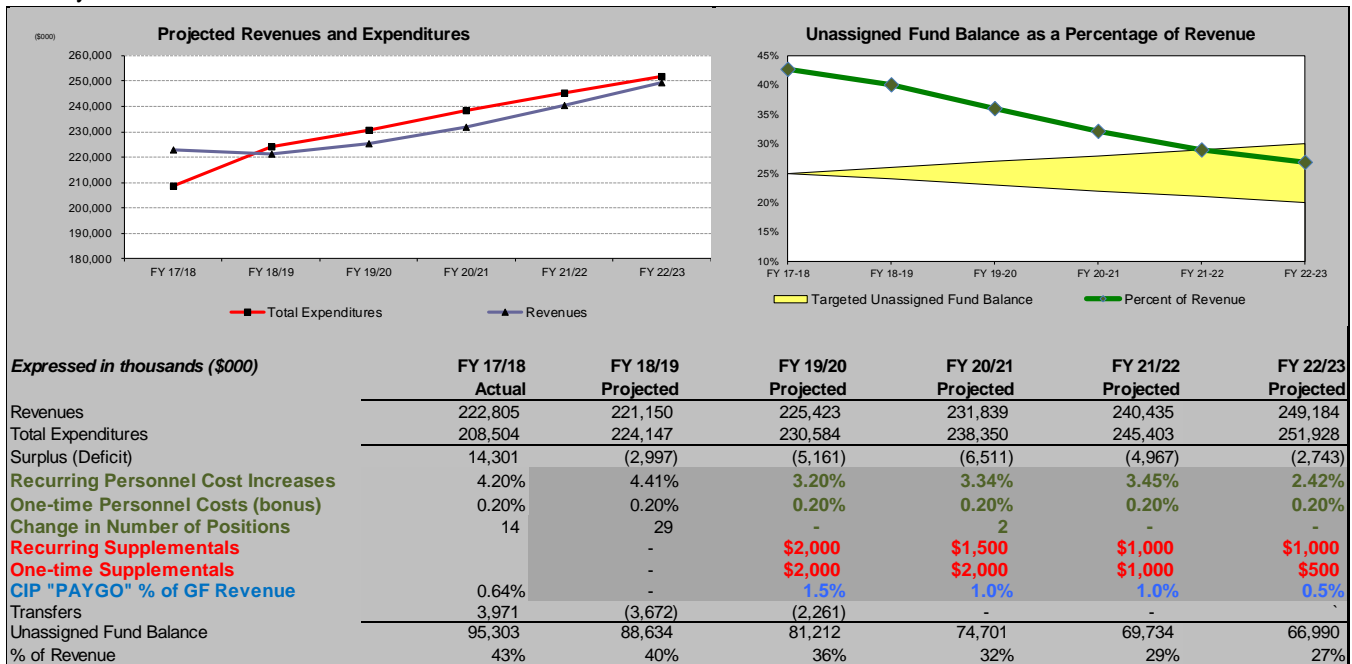


	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Prelim.	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected	21/22 Projected	22/23 Projected
Revenues (\$000)										
Local Taxes	111,874	107,921	110,770	116,594	123,272	128,535	132,628	137,725	142,965	148,411
Intergovernmental	38,155	40,572	41,473	44,672	48,404	48,913	52,764	55,182	57,587	59,849
Bldng & Trades/Plan & Zoning	10,495	10,266	9,947	9,079	12,632	8,998	6,307	6,449	6,597	6,759
Cultural and Recreation	6,462	6,831	6,970	7,350	7,170	6,321	6,560	6,819	7,092	7,386
Fines, Fees and Forfeitures	8,190	8,436	8,580	8,095	6,839	5,612	5,823	6,053	6,296	6,557
Business Licenses	1,703	1,616	1,597	1,165	2,184	1,046	1,069	1,093	1,118	1,146
Interest Income	356	578	934	1,215	2,008	1,700	2,058	2,382	2,444	2,526
Franchise Fees	3,311	3,441	4,519	3,433	3,576	3,584	3,663	3,745	3,832	3,925
Other Revenue Sources	8,360	10,325	18,693	16,227	16,720	16,439	14,552	12,390	12,505	12,625
Total Revenues	188,905	189,988	203,482	207,829	222,805	221,150	225,423	231,839	240,435	249,184
Expenditures (\$000)										
Personnel Costs	143,609	144,246	152,638	160,228	168,001	179,002	184,829	191,350	198,033	204,113
Materials and Supplies	8,896	9,046	8,140	8,326	8,827	9,334	8,921	9,069	9,219	9,412
Fees and Services	28,421	26,352	28,509	28,465	32,494	35,671	32,878	33,684	34,524	35,425
Travel and Training	337	423	546	751	689	923	753	770	788	807
Non-Deprmtl/Loan Repayment	2,192	1,867	1,391	1,586	1,910	2,708	2,356	2,409	2,464	2,525
Capital Outlay	1,500	2,385	2,727	3,016	4,378	5,075	2,737	3,080	2,626	2,973
CIP - Cash & Muni Arts Funding	0	2,821	3,239	3,420	1,343	2,472	2,456	2,465	2,645	2,803
Community Facilities District	134	(92)	(170)	(242)	(278)	(401)	(458)	(492)	(526)	(562)
Special Assessments	1,006	1,016	1,017	1,016	1,028	1,030	1,030	1,030	1,030	1,030
Transportation Maint. of Effort	626	1,150	1,215	1,116	1,500	0	0	0	0	0
Tourism and Convention Bureau	2,130	2,160	2,182	2,300	2,476	2,645	2,680	2,730	2,780	2,780
Internal Services/Adjustments	(7,895)	(10,023)	(10,311)	(11,447)	(13,864)	(14,312)	(14,980)	(15,564)	(16,085)	(16,624)
Recurring Operating Supplementals						0	2,000	3,500	4,500	5,500
CIP Paygo						0	3,381	2,318	2,404	1,246
Non-recurring Operating Supplementals						0	2,000	2,000	1,000	500
Total Expenditures	180,956	181,351	191,123	198,534	208,504	224,147	230,584	238,350	245,403	251,928
Net Operating Surplus/(Deficit)	7,949	8,637	12,359	9,295	14,301	(2,997)	(5,161)	(6,511)	(4,967)	(2,743)
Interfund Transfers	5,326	495	(5,383)	(4,276)	(2,593)	0	0	0	0	0
Change to Assignment of Fund Balance	(2,287)	673	(1,839)	(3,876)	3,971	(3,672)	(2,261)	0	0	0
Capital Improvements Reserve	0	0	0	0	0	0	0	0	0	0
Unassigned Fund Balance	63,540	73,345	78,482	79,624	95,303	88,634	81,212	74,701	69,734	66,990
Unassigned Fund Balance % of Rev.	34%	39%	39%	38%	43%	40%	36%	32%	29%	27%

The figure above provides detail for budgeted accounts within the General Fund, with “sample” budget decisions incorporated from the interactive model appearing below:

- 1) Projected growth in annual compensation represents the projected contributions to retirement systems, salary step increases included in current MOU’s, projected market adjustments to the salary ranges and increases to health/dental/life insurance plans as provided in the detailed assumptions on the last page of this report.
- 2) Recurring and non-recurring supplemental budget increases have been included in each year of the General Fund model, but the actual uses of the additional funding have not been determined.

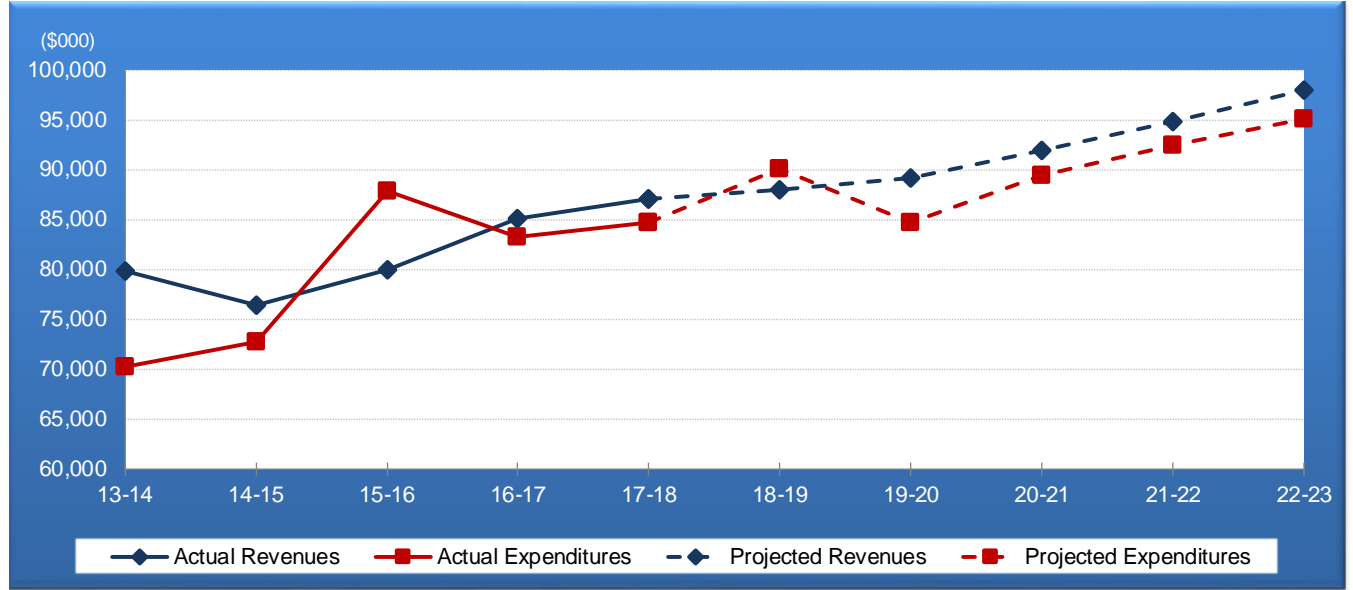
The forecast includes a measured spend-down of fund balance without jeopardizing the stability of the fund in the future. The projected growth variables displayed in the model are not recommendations by management at this point, but examples to demonstrate how projected resources could be allocated in future years and still comply with the fund balance policy. The graph on the right side of the figure shows how the unassigned fund balance stays above the policy minimum of 20% throughout the forecast period, as required by policy and is projected to be nearer the top of the policy range, as directed by the City Council.



This forecast for the General Fund shows slightly improved revenue projections from the last forecast. State sales tax and income tax numbers have stabilized after some disruption when the Department of Revenue assumed administrative responsibility for those revenues and we are projecting improved revenues. Development-related revenues have continued to outperform estimates.

Included in projected revenues but excluded from unassigned fund balance are the anticipated reimbursements from the Arizona Sports and Tourism Authority for upgrades to Diablo Stadium. Reimbursements to Tempe have begun and are projected to total \$6 million during the forecast period, ultimately resulting in a restricted balance of \$12.2 million. The City Council directed staff to restrict this cash and exclude it from the General Fund Unassigned Fund Balance until a process is completed to determine what future Diablo Stadium improvements might be necessary to maintain the ballpark at Major League Baseball standards. A Diablo Stadium Master Plan is funded in the current CIP.

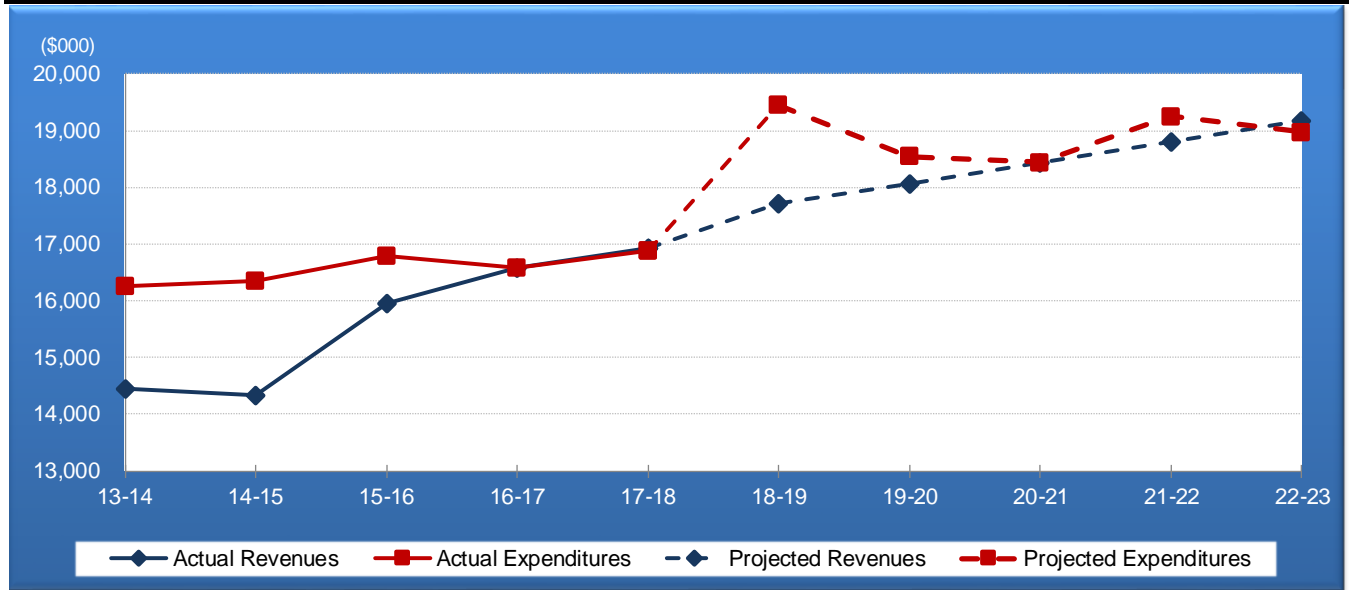
Water/Wastewater Enterprise Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Charges for Service-Water	45,200	44,584	46,720	50,445	52,216	53,609	54,459	56,749	59,137	61,625
Charges for Service-Wastewater	32,374	30,996	31,863	33,025	33,182	32,448	32,472	32,591	32,987	33,616
Interest Income	257	382	566	788	1,082	1,060	1,332	1,626	1,706	1,781
Loan Repayment	-	-	-	182	182	182	182	182	182	182
Other Miscellaneous Revenue	1,940	479	775	609	351	612	695	742	740	740
Total Revenues	79,772	76,441	79,924	85,049	87,014	87,911	89,139	91,891	94,752	97,945
Expenditures (\$000)										
Personnel Costs	15,384	13,732	13,923	14,136	14,166	15,918	16,413	16,944	17,476	17,961
Materials and Supplies	3,757	3,859	4,838	4,907	5,841	4,960	4,599	5,526	5,701	5,366
Fees and Services	12,858	13,255	18,653	13,511	13,942	16,545	16,003	16,524	17,066	17,412
Travel and Training	52	105	88	114	120	104	106	108	111	113
Debt Service	33,732	35,282	44,042	40,674	42,899	42,349	37,304	39,590	40,740	43,053
Transfers to / (from) CIP	214	360	282	3,296	195	216	886	995	1,258	911
Municipal Arts Contribution	-	175	219	337	455	529	498	441	600	428
Internal Service Charges	1,970	3,463	3,443	3,670	3,988	5,336	5,587	5,805	5,999	6,200
Indirect Cost Allocations	2,239	2,422	2,380	2,603	3,086	3,141	3,288	3,417	3,531	3,649
Contingency	-	-	-	-	-	1,000	-	-	-	-
Total Expenditures	70,207	72,653	87,867	83,248	84,693	90,099	84,684	89,349	92,481	95,094
Net Operating Surplus/(Deficit)	9,565	3,788	(7,943)	1,801	2,322	(2,187)	4,455	2,541	2,270	2,852
Accrual Basis Adjustments	1,605	(1,672)	9,977	788	-	-	-	-	-	-
Unassigned Fund Balance	65,176	67,291	69,326	71,915	74,236	72,049	76,504	79,046	81,316	84,168
Unassigned Fund Balance as a %	82%	88%	87%	85%	85%	82%	86%	86%	86%	86%

The Water/Wastewater Enterprise fund is stable. There are no water or wastewater increases for 2019. The forecast assumes the recommended rate adjustments per the last comprehensive rate study. Staff will be updating the rate model to determine the timing of future rate adjustments and ensuring a planned draw down of the fund balance in a sustainable manner.

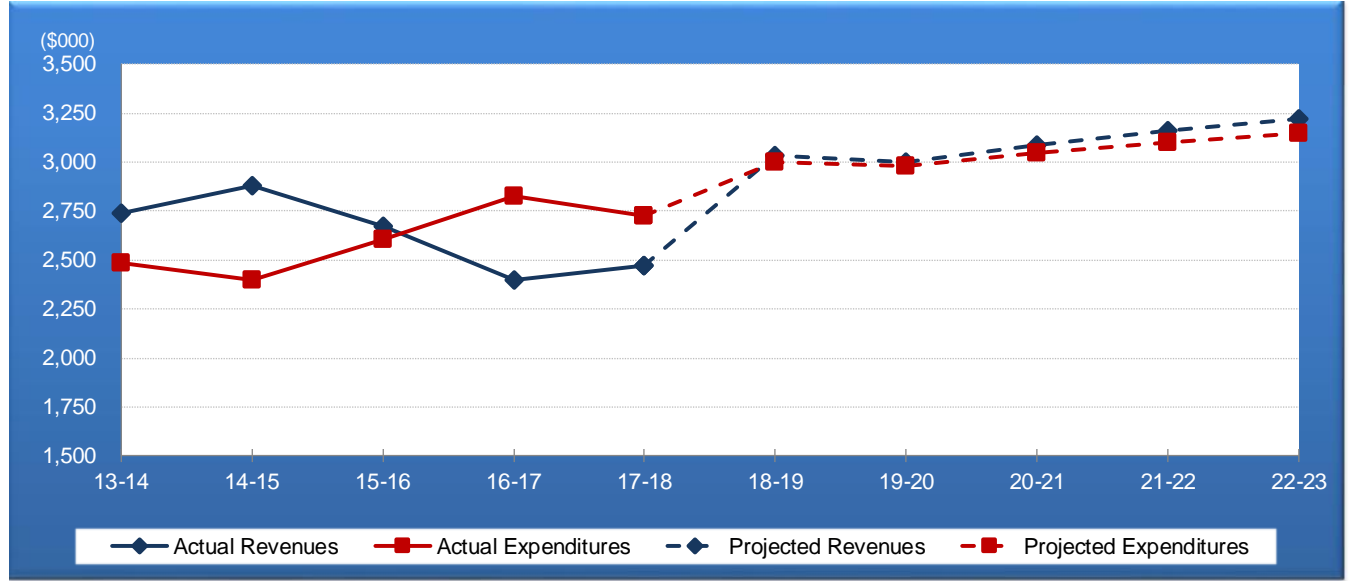
Solid Waste Enterprise Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Charges for Services	14,400	14,217	15,320	16,274	16,707	17,244	17,589	17,941	18,299	18,665
Interest Income	18	18	27	38	48	42	52	65	82	82
Other Revenue Sources	43	95	607	260	181	430	430	430	430	430
Total Revenues	14,461	14,330	15,954	16,572	16,936	17,716	18,071	18,436	18,811	19,177
Expenditures (\$000)										
Personnel Costs	5,356	5,125	5,068	5,339	5,317	5,803	6,005	6,205	6,421	6,619
Materials and Supplies	180	188	532	844	764	689	704	720	720	720
Fees and Services	3,743	4,127	3,895	3,922	3,932	3,602	3,385	3,423	3,466	3,480
Travel and Training	3	25	30	17	22	18	19	19	20	20
Capital Outlay	2,285	1,988	2,421	1,851	551	2,833	2,225	1,855	2,205	1,509
CIP - Cash Funded	368	197	102	14	211	600	554	347	342	342
Internal Service/Adjustments	3,359	3,709	3,628	3,430	4,732	3,980	4,165	4,328	4,473	4,622
Indirect Cost Allocations	953	993	1,105	1,169	1,360	1,422	1,488	1,546	1,598	1,652
Transfers	4	5	5	5	5	5	5	5	5	5
Contingency	-	-	-	-	-	500	-	-	-	-
Total Expenditures	16,251	16,357	16,786	16,590	16,894	19,452	18,550	18,447	19,248	18,969
Net Operating Surplus/(Deficit)	(1,790)	(2,027)	(832)	(18)	43	(1,736)	(479)	(11)	(437)	208
Accrual Basis Adjustments	(91)	(1,196)	1,258	309	92	0				
Ending Fund Balance	5,547	2,323	2,749	3,039	3,174	1,438	959	948	511	719
Fund Balance as a % of Revenue	38%	16%	17%	18%	19%	8%	5%	5%	3%	4%

This model includes the 2% annual rate increases recommended in the latest comprehensive rate study. Even with the rate adjustments deficits are projected for every year of the forecast, based on budgeted expenditures. Public Works anticipates spending 98% of the annual budget each year, which is reflected in this model. Public Works continues to be concerned about the solvency of the commercial operation and is taking steps to improve efficiency and retain customers.

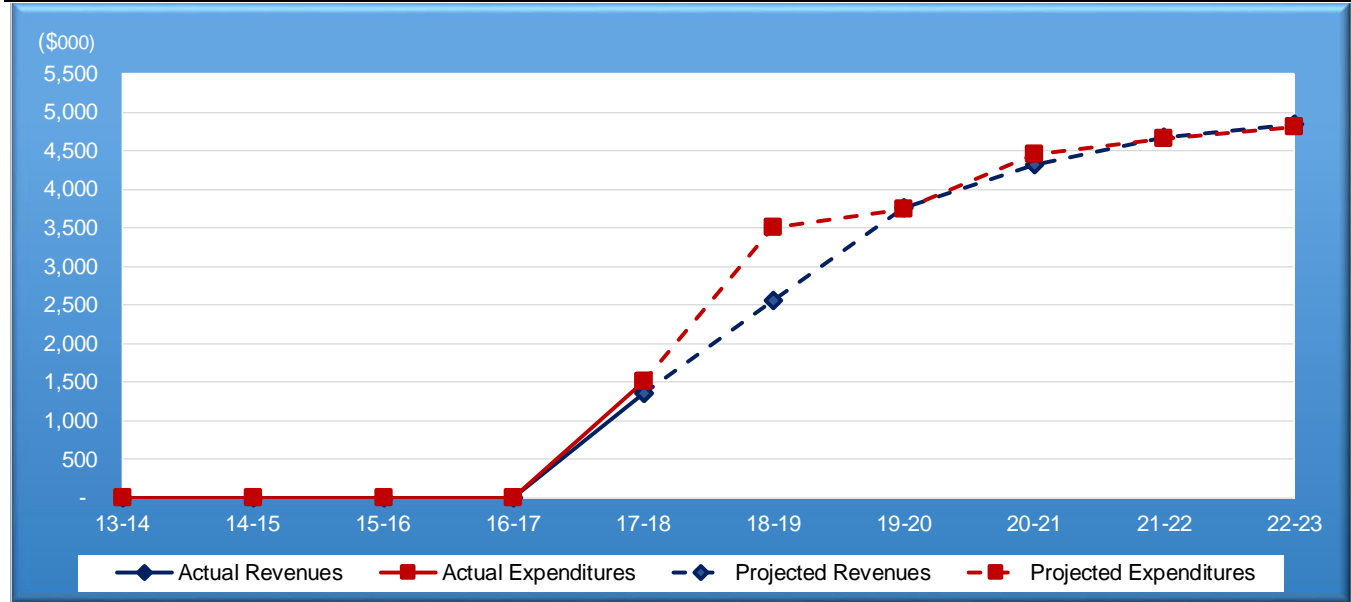
Golf Enterprise Fund



	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected	21/22 Projected	22/23 Projected
Revenues (\$000)										
Greens Fees	1,809	1,908	1,822	1,659	1,710	2,147	2,222	2,289	2,346	2,393
Rental Charges	639	555	495	428	443	481	497	512	525	536
Range Fees	191	194	167	141	180	188	195	201	206	210
Interest Income	(1)	8	19	(2)	(9)	-	-	-	-	-
Other Revenue Sources	103	213	169	176	146	217	86	86	86	86
Total Revenues	2,741	2,878	2,673	2,401	2,469	3,033	3,001	3,088	3,163	3,225
Expenditures (\$000)										
Personnel Costs	692	559	506	400	547	585	601	622	631	636
Materials and Supplies	380	340	386	539	404	441	451	461	461	461
Fees and Services	969	1,114	1,256	1,152	1,109	962	1,003	1,030	1,059	1,089
Capital Outlay	87	96	138	202	111	493	389	389	389	389
Internal Service Charges	205	148	187	198	229	185	194	201	208	215
Indirect Cost Allocations	150	139	134	152	144	151	158	164	170	175
Debt Service	-	-	-	182	182	182	182	182	182	182
Total Expenditures	2,484	2,396	2,607	2,825	2,727	2,999	2,978	3,050	3,099	3,147
Net Operating Surplus/(Deficit)	257	481	65	(424)	(258)	34	23	38	64	77
Accrual Basis Adjustments	(259)	(205)	(174)	342	319	-	-	-	-	-
Ending Fund Balance	(700)	(423)	(531)	(613)	(552)	(518)	(495)	(457)	(393)	(316)
Fund Balance as a % of Revenue	-26%	-15%	-20%	-26%	-22%	-17%	-17%	-15%	-12%	-10%

The Golf Enterprise Fund projects modest operating surpluses over the next five years. Based on City Council direction, Public Works will develop a 5-year facilities and golf course asset management CIP for potential G.O. bond funding.

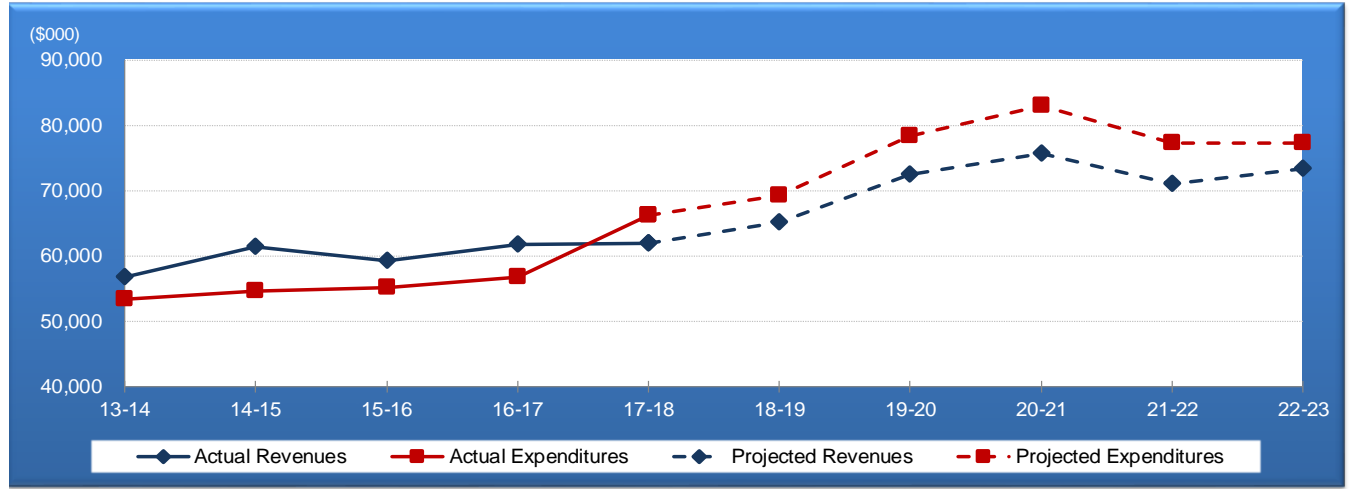
Emergency Medical Transportation Enterprise Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Ambulance Services	-	-	-	-	541	2,281	3,625	4,272	4,674	4,837
Contract Revenue	-	-	-	-	810	274	130	43	-	-
Interest Revenue	-	-	-	-	(1)	(5)	(2)	(0)	(0)	0
Total Revenues	-	-	-	-	1,350	2,550	3,753	4,315	4,674	4,837
Expenditures (\$000)										
Personnel Costs	-	-	-	-	856	1,506	2,214	2,795	3,227	3,350
Materials & Supplies	-	-	-	-	279	389	469	525	541	552
Fees & Services	-	-	-	-	298	394	465	492	510	518
Travel & Training	-	-	-	-	1	5	5	5	5	5
Capital Outlay	-	-	-	-	-	125	52	52	-	-
CIP - Cash Funded	-	-	-	-	-	690	230	230	-	-
Advance Repayment	-	-	-	-	-	71	98	123	124	124
Internal Service Charges	-	-	-	-	79	173	206	238	246	254
Contingency	-	-	-	-	-	150	-	-	-	-
Total Expenditures	-	-	-	-	1,513	3,502	3,739	4,460	4,653	4,804
Net Operating Surplus/(Deficit)	-	-	-	-	(163)	(953)	13	(145)	20	34
Interfund Transfers	-	-	-	-	-	690	230	230	-	-
Accrual Basis Adjustments	-	-	-	-	63	-	-	-	-	-
Ending Fund Balance	-	-	-	-	(100)	(362)	(119)	(34)	(13)	21
Fund Balance as a % of Revenue	0%	0%	0%	0%	-7%	-14%	-3%	-1%	0%	0%

The Emergency Medical Transportation program is completing its first full year in November 2018. Revenues have developed faster than anticipated and are in-line with monthly projections. Projections include the addition of two ambulances in January 2019 and one additional ambulance in both 2020 and 2021.

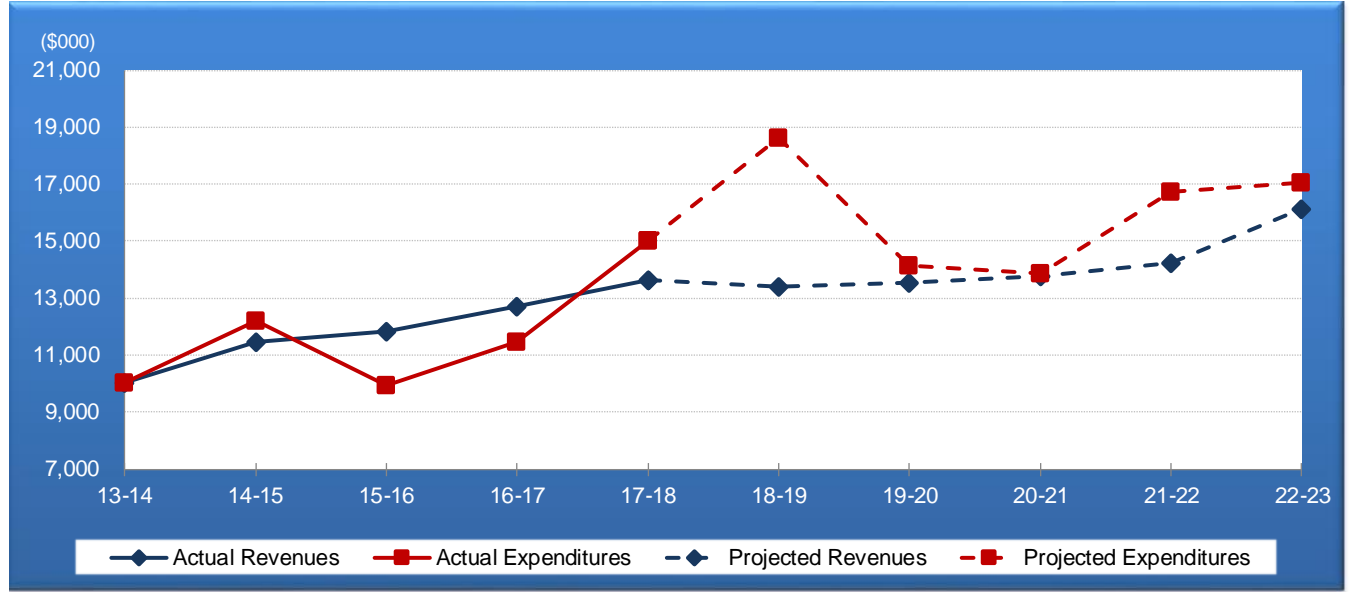
Transit Special Revenue Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Transit Tax	33,539	36,148	37,289	39,513	41,074	42,859	44,005	45,693	47,426	49,228
EVBOm Maint & Fuel (RPTA)	6,312	5,853	4,492	4,928	5,121	5,803	5,953	6,108	6,267	6,430
PTF Funding	2,145	2,233	3,412	4,369	5,148	5,442	5,637	5,702	5,865	6,060
Federal Grants - Bus and Light Rail	3,887	3,298	2,762	3,226	2,006	1,686	1,717	1,735	1,754	1,773
Out of Jurisdiction Service Revenue	(76)	630	-	-	-	-	-	-	-	-
Bus Fares	4,992	4,519	4,136	3,618	3,167	3,405	3,439	3,473	3,577	3,613
Light-Rail Fares	3,603	3,696	3,047	3,142	2,396	2,945	3,033	3,124	3,218	3,315
Street Car Fares	-	-	-	-	-	-	-	430	443	461
Alt Fuel Credit	86	913	1,429	109	-	-	-	-	-	-
Bond Proceeds - Streetcar	-	-	-	-	-	-	6,000	7,000	-	-
Miscellaneous Revenue	2,342	4,054	2,772	2,921	3,035	3,027	2,679	2,516	2,522	2,553
Total Revenues	56,831	61,344	59,339	61,825	61,947	65,167	72,463	75,783	71,073	73,433
Expenditures (\$000)										
Personnel Costs	3,032	2,248	2,225	2,450	2,308	2,646	2,697	2,784	2,866	2,935
Transportation Center O&M	362	330	405	285	309	551	529	542	556	570
Bus Operations	23,312	23,139	24,061	26,085	27,749	30,752	31,760	32,127	33,044	34,143
Bus Operations-EVBOM - Fuel & Maint	5,619	5,130	3,740	4,161	4,174	5,632	5,966	6,145	6,330	6,519
Light Rail Operations	9,262	9,368	8,969	9,426	9,948	12,334	12,732	13,114	13,507	13,912
Security - Transit Operations	401	460	475	478	483	519	540	553	569	584
Transit Store - Bus Media	618	573	556	489	572	815	635	656	678	700
Admin / Marketing / Planning / Signal Systems	521	595	503	515	509	875	1,051	1,062	1,072	1,083
Bus Stop & Bike Path Maintenance	738	766	878	885	916	1,218	1,308	1,342	1,376	1,411
Operating Capital Outlay	168	138	231	91	106	30	0	0	0	0
Street Car O&M	-	-	-	-	-	-	-	4,300	4,429	4,606
CIP Funding	3,760	5,390	6,476	4,781	6,937	6,917	8,182	6,314	4,892	3,564
Municipal Arts Contribution	-	-	-	-	-	100	82	63	49	36
Capital Funding Transfer - Streetcar	-	-	-	-	-	-	6,000	7,000	-	-
Debt Service	4,668	4,658	4,663	4,596	9,655	4,117	4,118	4,115	4,117	4,114
Internal Service Charges/Adjustments	920	1,873	2,020	2,593	2,634	2,638	2,761	2,869	2,965	3,065
Contingency	-	-	-	-	-	188	-	-	-	-
Total Operating Expenditures	53,379	54,668	55,202	56,834	66,299	69,331	78,362	82,986	76,449	77,242
Net Operating Surplus/(Deficit)	3,451	6,676	4,137	4,991	(4,351)	(4,164)	(5,898)	(7,203)	(5,376)	(3,809)
Accrual Basis Adjustments	41	24	110	(121)	(51)	-	-	-	-	-
(To) / From Capital Fund	-	-	-	-	12,500	-	-	-	-	-
Unassigned Fund Balance	31,070	37,770	42,017	46,887	54,985	50,821	44,923	37,720	32,344	28,535
Unassigned Fund Balance as a % of Revenue	55%	62%	71%	76%	89%	78%	62%	50%	46%	39%
Fund Balance Assigned for Debt Retirement	8,500	8,500	8,500	8,500	8,500	-	-	-	-	-

The Transit Fund is stable with a healthy fund balance. Operating costs for the streetcar are included in the projections.

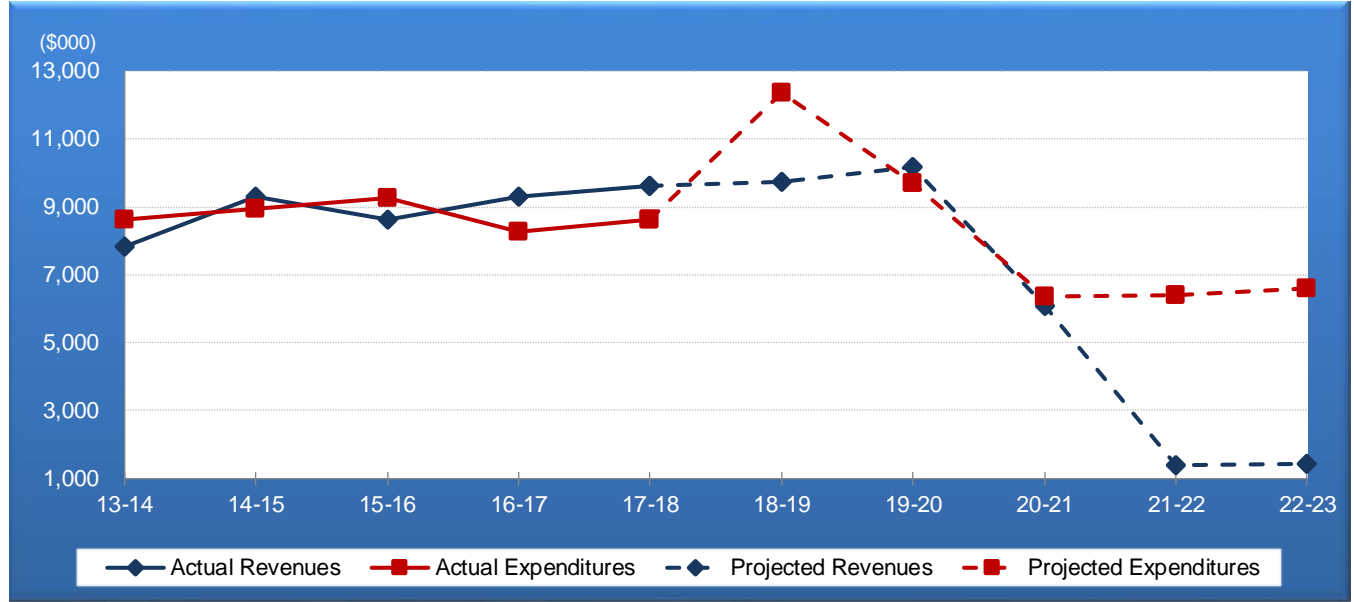
Transportation (HURF) Special Revenue Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Highway User Revenue Tax	9,125	10,014	10,458	10,909	11,450	12,161	12,745	13,004	13,416	13,819
Maintenance of Effort Transfer	626	1,150	1,215	1,116	1,500	700	700	700	700	2,200
Miscellaneous	257	282	150	689	673	523	95	90	97	118
Total Revenues	10,009	11,446	11,823	12,714	13,622	13,384	13,540	13,794	14,214	16,137
Expenditures (\$000)										
Personnel Costs	3,917	4,058	4,207	4,296	4,311	4,882	4,993	5,157	5,376	5,464
Materials and Supplies	580	609	619	605	485	818	836	855	874	896
Fees and Services	2,058	2,059	2,163	2,164	2,322	2,766	2,801	2,883	2,968	3,058
Travel and Training	8	8	15	15	15	19	19	19	20	20
Capital Outlay	227	663	590	346	75	332	279	448	481	733
Debt Service	-	-	-	-	-	-	-	-	-	-
CIP - Cash Funded	1,427	3,277	300	2,319	5,871	7,838	3,134	2,352	4,815	4,600
Loan Repayment	3	5	5	5	5	5	5	5	5	5
Internal Service Charges	1,062	678	1,190	755	803	532	555	577	596	616
Indirect Cost Allocations	758	861	870	960	1,121	1,433	1,501	1,559	1,611	1,665
Total Expenditures	10,041	12,216	9,957	11,465	15,007	18,624	14,122	13,855	16,746	17,058
Net Operating Surplus/(Deficit)	(32)	(771)	1,866	1,249	(1,385)	(5,240)	(582)	(61)	(2,533)	(921)
Accrual Basis Adjustments	(182)	35	105	41	-					
Ending Fund Balance	7,906	7,170	9,141	10,430	9,046	3,806	3,224	3,163	631	(290)
Fund Balance as a % of Revenue	79%	63%	77%	82%	66%	28%	24%	23%	4%	-2%

The Transportation Fund receives a large majority of its funding from State-shared Highway User Revenue Funds (HURF). HURF tax collections are projected to be slightly less than the last forecast. Also, the "Maintenance of Effort" contribution from the General Fund is no longer statutorily required.

Performing Arts Special Revenue Fund



	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	Projected
Revenues (\$000)										
Performing Arts Tax	6,922	7,460	7,656	8,085	8,437	8,805	9,083	4,716	-	-
Facility Revenue	905	899	975	1,232	1,166	936	1,082	1,344	1,385	1,426
Interest Income	8	10	9	(2)	4	-	-	-	-	-
Total Revenues	7,835	8,369	8,640	9,315	9,607	9,741	10,166	6,060	1,385	1,426
Expenditures (\$000)										
Personnel Costs	1,813	1,828	2,017	2,290	2,652	2,905	2,948	3,042	3,144	3,257
Materials and Supplies	112	107	105	200	144	200	204	209	214	219
Fees and Services	509	495	442	763	999	1,177	1,206	1,236	1,267	1,301
Capital Outlay	-	-	-	-	-	-	32	105	-	52
CIP - Cash Funded	-	100	258	1,058	695	4,028	1,226	1,071	1,051	1,037
Debt Service	5,928	5,924	5,924	3,433	3,431	3,432	3,434	-	-	-
Internal Service Charges	247	472	497	514	709	639	669	695	718	742
Total Expenditures	8,609	8,927	9,242	8,257	8,630	12,379	9,719	6,358	6,394	6,608
Net Operating Surplus/(Deficit)	(774)	(558)	(602)	1,058	977	(2,639)	447	(297)	(5,009)	(5,182)
Accrual Basis Adjustments	6	1	1	(8)	(35)					
Ending Fund Balance	694	137	(464)	586	1,528	(1,111)	(663)	(961)	(5,970)	(11,152)
Fund Balance as a % of Revenue	9%	2%	-5%	6%	16%	-11%	-7%	-16%	-431%	-782%

Approximately 90% of the revenue in the Performing Arts Fund is derived from the City's 0.1% Performing Arts Sales Tax. The rest is received from users of the Tempe Center for the Arts (TCA). The forecast model projects this revenue through the expiration of the tax in December 2020. Proposition 417, on the November ballot, would create a new 0.1% privilege and use tax to fund arts and culture in Tempe, including the Tempe Center for the Arts. An annual structural deficit is projected after FY19/20 if the arts and culture tax is not approved by voters. Facility revenue is projected to slightly decrease during the current and next fiscal year due to construction of the IDEA Campus.

Forecast Growth Rates - November 1, 2018

Revenues	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Taxable Sales Growth	3.5%	4.0%	3.8%	3.8%	3.8%
General Fund Sales Tax Revenue	4.0%	4.1%	3.8%	3.8%	3.8%
Total Sales Tax Rate	1.8%	1.8%	1.8%	1.8%	1.8%
General Fund	1.2%	1.2%	1.2%	1.2%	1.2%
Transit Fund	0.5%	0.5%	0.5%	0.5%	0.5%
Performing Arts Fund	0.1%	0.1%	0.1%	0.0%	0.0%
Primary Property Tax Levy Growth	5.0%	4.0%	4.0%	4.0%	4.0%
Bed Tax Taxable Sales Growth	3.5%	3.3%	3.2%	3.2%	3.2%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.7%	1.7%	1.7%	1.7%	1.7%
State Population Growth	1.6%	1.6%	1.6%	1.6%	1.6%
State Shared Income Tax Growth	-0.9%	9.3%	5.5%	4.8%	3.9%
State Shared Sales Tax Growth	1.0%	4.3%	3.6%	4.2%	4.2%
State Vehicle License Tax Growth	7.0%	12.1%	4.3%	3.6%	3.3%
Building and Trades Growth	-28.8%	-29.9%	2.3%	2.3%	2.5%
Cultural and Recreational Growth	-11.8%	3.8%	4.0%	4.0%	4.2%
Fees, Fines, Forfeitures Growth	-17.9%	3.8%	4.0%	4.0%	4.2%
Licenses Growth	-52.1%	2.2%	2.3%	2.3%	2.5%

Expenditures	<u>FY 18/19</u>	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>FY 21/22</u>	<u>FY 22/23</u>
Personnel Costs Growth ⁽¹⁾	7.4%	4.7%	3.9%	3.4%	3.4%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	11.80%	12.10%	12.40%	12.70%	12.70%
Police Retirement (% of payroll)	61.25%	64.93%	68.62%	72.30%	72.80%
Fire Retirement (% of payroll) ⁽²⁾	67.23%	70.78%	74.34%	77.90%	78.40%
Health, Dental, Life Actives	22.5%	11.1%	10.7%	9.7%	8.7%
Health, Dental, Life Retirees	0.8%	-2.3%	2.9%	3.3%	8.3%
Mediflex Growth	0.0%	0.0%	0.0%	0.0%	0.0%
Other Fringe Benefits Growth	0.0%	0.0%	0.0%	0.0%	0.0%
General Inflation	2.5%	2.2%	2.3%	2.3%	2.5%
Electricity Inflation	3.3%	3.3%	3.3%	3.3%	3.3%
Water Inflation	4.3%	0.0%	4.3%	4.3%	4.3%
Sewer Inflation	0.0%	0.0%	2.0%	2.0%	2.0%
Gasoline Inflation	12.1%	1.5%	-0.7%	-0.9%	0.6%

Notes:

⁽¹⁾ Excluding OPEB Trust Fund Advance/Withdrawal

⁽²⁾ Net of Fire Insurance Premium Tax credit